

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 20 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 59.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 60. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 25 to the financial statements.

The Company had no share options in issue during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

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DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution amounted to approximately HK\$19,703,000, representing the share premium account of the Company of approximately HK\$83,832,000 less the accumulated losses as at 31 December 2006 of approximately HK\$64,129,000. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 61% of the total sales for the year and sales to the largest customer included therein amounted to 35%. Purchases from the Group's five largest suppliers accounted for 32% of the total purchases for the year and purchases to the largest supplier included therein amounted to 9%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Lo Peter	
Mr. Sun David Lee	
Mr. Li Wentao	(re-designated as executive director from non-executive director on 26 May 2006)
Mr. Fu Hui	(appointed on 18 July 2006)
Mr. Au Peter Jeva	(resigned on 1 January 2006)

Non-executive directors:

Mr. Yeung Ting-Lap Derek Emory	
Mr. Greer Thomas	(resigned on 1 January 2006)
Mr. Chau Wai-Kau	(retired on 26 May 2006)

Independent non-executive directors:

Dr. Loke Yu
Dr. Leung Kwan-Kwok
Mr. Zuchowski Sam

In accordance with article 116 of the Company's articles of association, Mr. Lo Peter and Mr. Zuchowski Sam will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. All directors (except the Managing Director) are subject to retirement by rotation under article 116 of the Company's articles of association.

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In accordance with article 99 of the Company's articles of association, Mr. Fu Hui will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting. Directors appointed to fill a casual vacancy shall hold office only until the first annual general meeting after their appointment, and shall be subject to re-election by the shareholders under article 99 of the Company's articles of association.

The Company has received annual confirmations of independence from Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 and 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group. Details of the directors' fees are set out in note 13 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

None of the directors or chief executive had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted by the shareholders of the Company by way of written resolution passed on 29 December 2000. The Company had no share options in issue during the year and up to the date of this report. The Company had undertaken a review of the existing Scheme and note that certain provisions could be clarified and improved in light of the provisions of Chapter 17 of the Listing Rules. Accordingly, the Board proposes that the Company adopt a new share option scheme, and for the existing Scheme to be terminated. A resolution will be proposed at the forthcoming annual general meeting.

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
Orientalite Investments Limited (Note)	195,000,000	58.7
China Enterprise Capital Limited (Note)	195,000,000	58.7

Note: Orientalite Investments Limited is wholly owned by China Enterprise Capital Limited. Hence, China Enterprise Capital Limited is deemed to have an interest in the shares in which Orientalite Investments Limited is interested under the SFO.

Save as disclosed above, as at 31 December 2006, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

On 26 May 2006, Beilei (Tianjin) Dairy Co., Ltd. ("Beilei"), a 70% owned subsidiary of the Company, entered into a raw milk purchase agreement with Tianjin State Farms Agribusiness Group Company ("Tianjin Agribusiness"), the minority shareholder of Beilei holding the remaining 30% equity interest in Beilei, for the supply of raw milk to Beilei. The relevant details for the above transactions were set out in the Company's announcements dated 26 May 2006. For the year ended 31 December 2006, total purchases from Tianjin Agribusiness and its subsidiaries amounted to approximately HK\$11,194,000.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

AUDITORS

RSM Nelson Wheeler retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LO Peter

Chairman

Hong Kong, 19 April 2007